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GOV. PAT Quinn delivered a harsh message with eloquent clarity when he unveiled his proposed budget in February.

Quinn warned that decades of poor fiscal management have decimated the state's finances, and that legislators must be prepared to make very hard decisions when they return to Springfield this week.

That means deep cuts in day-to-day operating budgets, cuts that will be felt by all Illinois residents to varying degrees. More importantly, lawmakers must address the root cause of the crisis we now face by enacting meaningful pension and Medicaid reforms. If they fail to do so, the cuts being made today will pale in comparison to those required in the future.

We can do our part to get Illinois back on track by telling our legislators to meet this challenge head-on. Lawmakers must know that we expect them to end the annual cycle of overspending on programs and services, and to enact reforms that will curb the unsustainable growth in Medicaid and pension payments.

The depth of the state's financial crisis, and the need for such reforms, is well documented.

Illinois has a backlog of \$8 billion in unpaid bills, a figure that will grow to an unprecedented \$34.8 billion in five years, according to the Civic Federation of Chicago, figures that are generally not in dispute.

The cause of this deepening crisis is no mystery: the sharp and unsustainable rise in Medicaid costs, and the growing burden of pension payments.

Unpaid Medicaid bills could soar to \$21 billion by 2017 -- accounting for 60 percent of the state's total projected backlog in unpaid bills. Pension spending, which will total \$4.1 billion in the fiscal year that ends June 30, will soar 26 percent to \$5.2 billion next year and consume 15 percent of the general-fund budget, compared to 6 percent in 2008, Jack Lavin, Quinn's chief of staff, told Bloomberg. The state's five retirement systems already have unfunded liabilities totaling \$83.1 billion, fueled by automatic increases unrelated to cost-of-living benchmarks.

Simply put, Medicaid and pension costs are draining the financial lifeblood from virtually every other aspect of state operations, and will account for nearly 50 percent of general revenue spending in fiscal 2013.

These diversions not only impact social services, local governments, the business sector and every community organization that relies on state funds. They also deeply undercut funding for infrastructure improvements that provide the very basis for long-term economic development.

Illinois would have been able to spend \$800 million more on roads and bridges in the current six-year plan if per-employee pension costs had remained at 2003 levels, according to the governor's office. That would have enabled the state, conservatively, to repair 2,285 miles of roads or 400 bridges, creating or retaining 10,400 jobs. Instead, that money is going to pensions. Spending by the Illinois Department of Transportation on pensions will triple, for the same number of employees, over the next five years if current trends continue.

Medicaid spending impacts transportation funding in similar fashion and, importantly, along with pension spending, also has important indirect effects.

Because of the budget crisis driven by pension and Medicaid spending, Moody's Investors Service has given Illinois the lowest bond rating of any state. Lower ratings translate into higher interest payments for bonded projects, which means less money for construction.

Clearly, it is time for fundamental reform of the state's pension and Medicaid programs.

Gov. Quinn has formed a pension working group, including several legislators, to work with his office and pension stakeholders to develop a blueprint for pension reform. That report is due Tuesday.

He also has called on lawmakers to trim \$2.7 billion from Medicaid spending in the coming year.

"We need to reconsider the groups who are eligible for Medicaid, the services we cover under the program, the utilization of these services and the way and amount we pay for them," Quinn said in his budget address, and he has formed a working group to study those issues.

Quinn has not proposed specific solutions, but has rightly suggested that virtually all aspects of the Medicaid program must be considered.

Quinn is absolutely correct in his call for action and efforts to involve lawmakers, stakeholders and others in the process of finding solutions and moving forward with fundamental change.

We agree that significant reforms are needed now, this year. Such reforms must be far-reaching in order to be effective, but also must be fair to retirees and health-care consumers who rely on these vital programs. Striking that balance will be difficult and can best be achieved through a bipartisan effort and close collaboration between the legislature and the governor's office.

The starting point for Medicaid reform must be that all options under the state's control -- elements not mandated by the courts or federal government -- be subject to review. If we are to preserve Medicaid -- and it is vital that we do -- it must be restructured so as to be sustainable.

Pension reform will require the same open-minded and tough-minded scrutiny. The Civic Federation, for example, a highly respected non-partisan research organization, is recommending for the first time that current Illinois retirees and employees hired before Jan. 1, 2011, receive the same annual benefit increases as new workers: 3 percent a year or one-half of the increase in CPI, whichever is less, increased by a simple interest rate.

Dick Ingram, executive director of the Illinois Teachers Retirement System, the largest of the five systems, has warned of a "painful collision between what is fair and what is real," and that it may be necessary not only to reduce annual increases but to reduce pensions of already retired teachers.

The governor is right in calling on legislators to face these hard truths head-on. This is a time for decisive action if we are to avoid a future that is far more bleak than the present, a future with far fewer services, much higher costs and no prospect of economic growth.

The first step toward that better future must be taken now: Tell your legislators that Illinois needs meaningful pension and Medicaid reform, and that you expect them to lead the way.



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